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C O N F I D E N T I A L SECTION 01 OF 02 REYKJAVIK 000091

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FROM AMBASSADOR VAN VOORST

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SUBJECT: Scenesetter for the Secretary's visit to Iceland May 30, 2008

Classified By: Amb. Carol van Voorst for reasons 1.4 (b) and (d).

¶1. (U) The Icelanders are delighted to welcome you to the High North. Your visit to Reykjavik is the first by a Secretary of State since Secretary Powell attended the NATO Summit here in 2002, and the first bilateral visit since Secretary Albright overnighted in 2000. Under Secretary for Political Affairs Burns was the last senior State official to visit in June of last year.

¶2. (SBU) In development and general prosperity, the Iceland you will see bears little resemblance to that of the Cold War years, when the country was struggling to emerge from a hardscrabble existence as one of the poorest countries in Europe. Leveraged investments of fishing profits and cheap, clean electricity translated into a booming economy for most of the last fifteen years. Though the economy has faltered in recent months as credit has dried up globally, life is now very comfortable for the vast majority of Icelanders.

¶3. (C) The governing coalition of the Prime Minister's Independence Party and the Foreign Minister's Social Democratic Alliance (SDA) is strong and enjoys considerable public support, though a few fractures are emerging as economic worries strain the partnership. So far, the SDA has taken the biggest hit in public confidence, as they have struggled to make the shift from opposition to government and have lost a number of coalition policy battles. Disagreement over EU membership may eventually drive the two parties apart, but most likely not before the next scheduled elections in 2011.

FM Gisladdottir: Atmospherics, topics

¶4. (C) Foreign Minister Gisladdottir's meeting with you in April was the last stop of an extremely heavy spring travel schedule. Both she and PM Haarde have been criticized for spending too much time abroad during a period of economic turmoil at home. She has focused more on her role as SDA leader in the last few weeks, though she did find time to visit the UK for consultations on development aid, to lobby for Iceland's UN Security Council bid, and to sign an MOU on defense cooperation.

¶5. (C) Gisladdottir is very appreciative of your visit and views it as confirmation of her role as the proponent of a more international-minded Iceland. Although her welcome will be warm and sincere, Gisladdottir is also under pressure from within and outside of her party to show that she can hold her own at the table with the U.S. She may feel she has to raise sensitive topics such as the Guantanamo Bay detention facilities and renditions of terrorist suspects, if only to be able to report she made the point.

¶6. (SBU) Women's Empowerment: Gisladdottir will be keen to follow up

on your previous discussion of Iceland's proposal for a Women Leaders Working Group.

¶7. (C) Middle East/Afghanistan: Gisladdottir will be interested in a readout of the ICI Conference in Stockholm and developments in Iraq, as well as your sense of progress in the Israeli-Palestinian peace process. She has a genuine desire to hear your thoughts on what role small states such as Iceland can play in the peace process, and may point to Palestinian Authority President Abbas' comments here last month that perhaps Iceland could host a second "Reykjavik Summit," this time centered on peace in the Middle East.

¶8. (SBU) Defense and Security: The FM's focus here will be on continuing her earlier conversation with you regarding NATO's involvement in the High North and broader security issues in the region, possibly foreshadowing the lunch conversation on Russia and the North Atlantic neighborhood. Gisladdottir may also want to brief on Iceland's latest efforts in building robust defense and security ties with neighboring NATO allies, including recent progress with the UK. She is also likely to cover the bilateral security relationship, and may raise the handover of the previously U.S.-run Iceland Air Defense System (IADS) radar stations, on which DOD has the lead. We are hoping to complete that transfer soon but may not be able to get the price as low as Iceland wishes due to legal and regulatory hurdles.

¶9. (C) UN Security Council Bid: We doubt that Gisladdottir will spend much time soliciting our vote for one of the two WEOG seats on the Security Council this fall (NOTE: Iceland is running against Austria and Turkey). Rather, she will go forward from the premise that Iceland will be successful and will be looking for input on how

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Iceland might shape its term on the UNSC. Should Iceland win election, it will hold the UNSC Presidency in February 2009, and Gisladdottir is exploring possible themes for Iceland's presidency, while also trying to prepare for the potential staffing headache for her small (250-person) foreign service.

Prime Minister Geir Haarde

¶10. (C) Warm, witty, and pragmatic, Prime Minister Haarde is at ease in domestic and international settings. Since you met him in Washington in October 2006 to sign the bilateral Joint Understanding, Haarde has only become more comfortable in the role of Head of Government. Haarde spent much of the first half of this year on trips abroad, serving as the country's head cheerleader for international audiences and protesting what he sees as the financial media's tendency to gang up on Iceland. Beyond economic pep talks, he also found time for bilateral visits with his Canadian and British counterparts in March and April, and in both places revitalized talks on defense and security cooperation that had become mired in the bureaucracy. He was most recently in the U.S. in April for anniversary celebrations of the international students program at Brandeis, his undergraduate alma mater.

¶11. (C) You will find Haarde assured and affable, though possibly defensive on the issue of media carping and the influence of foreign speculators on the strength of the Icelandic currency. You may see a slight awkwardness in the interplay between Haarde and FM Gisladdottir should the topic of EU membership come up; Gisladdottir makes no secret of her view that Iceland should join, while Haarde and his party are opposed. On virtually all other points, however, the two leaders have put themselves firmly in sync, and in their year as coalition partners have skillfully presented a unified front on most international issues while ignoring the squabbling of their parties' respective fringe elements. Haarde has given Gisladdottir a free hand to reorganize the Defense Department, housed within the MFA, and supported her as she pushed through Iceland's first defense budget. While Haarde will defer to Gisladdottir as your formal host, he is certain to make his own points to underline the central importance of the U.S. and NATO to Iceland's security.

PM/FM Working Lunch Topics: Russia, Global Economy

¶12. (C) Over lunch with PM Haarde and FM Gissladottir, we anticipate a wider scope to the discussion, focusing on issues of global concern. In particular, Iceland is keeping a close eye on developments in Russia, and the chattering classes here swing from criticism of U.S. "provocations" of the Russians to deep concerns over the increasingly assertive Russian foreign policy. This topic would provide an ideal opportunity to follow up on the NATO Bucharest Summit and the issue of MAP for Georgia and Ukraine -- Iceland supported MAP for both, but did not want to appear too far out in front. Further afield, both Haarde and Gissladottir would be interested in your views on developments in East Asia -- particularly China -- and in Africa, two areas where Iceland is constructing new business or development ties.

¶13. (U) Haarde and Gissladottir may also want to briefly cover economic issues, both to talk up the Icelandic economy and to explore developments in the U.S. and global economy that have a bearing on Iceland's highly leveraged financial sector. Haarde, who as Finance Minister oversaw much of Iceland's startling economic transition, is particularly interested in reassuring the U.S. concerning Iceland's creditworthiness.

¶14. (C) Whaling will be in the news again shortly before your arrival, as the government issued a new quota for commercial hunting of minke whales on May 19. While Gissladottir and her fellow SDA ministers believe whaling harms Iceland's image abroad and serves no real domestic interest, Haarde's party controls the issue and the PM is a firm defender of what he sees as Iceland's sovereign right to manage its own marine resources.

van Voorst